MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BFN3034 – BEHAVIOURAL FINANCE

(SECTION B01)

14 OCT 2017
2.30 P.M. – 4.30 P.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 2 pages.
2. Answer **ALL** questions. The marks for each question are given in the question paper.
3. Please write your answers for all the questions in the answer booklet.

Answer ALL questions.

Question 1

(a) Zhen Lai begins a meeting with his financial adviser by outlining his investment practises as shown below. You are required to identify one behavioural bias or trait that is most exhibited from statement (i) to (ii) below.

(i) If an investment falls below the purchase price, that security should be retained until it returns to its original costs. Conversely, I prefer to take quick profits on successful investment. **(5 marks)**

(ii) I am reluctant to sell stocks with "paper" losses. **(5 marks)**

(b) Discuss the two phases in prospect theory. How does utility theory differ from prospect theory? **(15 marks)**

(c) Discuss the consequences and implications of the self-control bias of an individual. **(10 marks)**

(Total: 35 marks)

Question 2

(a) Considering how behavioural finance can affect investment decisions, you are required to elaborate four guidelines that related to behavioural finance to improve investment returns. **(16 marks)**

(b) Discuss the two main players in the Shleifer model. Discuss why the Shleifer model is important. **(14 marks)**

(Total: 30 marks)

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Question 3

(a) Distinguish between representativeness and availability biases. Discuss the impacts and mitigations of representativeness and availability biases.

(18 marks)

(b) Describe three main challenges to traditional finance and the rational economic man.

(12 marks)

(c) The Wall Street Online Journal provides the data necessary to compute trin statistics. The trin statistics for the New York Stock Exchange on 11th August 2011 was 0.51. You are required to interpret the meaning of this measure.

(5 marks)

(Total: 35 marks)

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